



# POLICE AND FIRE RETIREMENT SYSTEM OF SPRINGFIELD, MO

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## Minutes January 27, 2009

### 1. Call to Order

Meeting chaired by Honea and called to order at 4:02 p.m. on January 27, 2009. Tape transcribed by Williams.

Note: this special Board meeting was called to hear reports from all of the Board's investment managers; however, due to inclement weather the following investment managers were unable to attend the meeting: Brandywine Global Investment Managers, Prudential Real Estate Investors and Galliard Capital Management.

### Attendance

Members	Representation	Present	Absent
Evelyn Honea	Chairperson	X	
Beau Barrett	Citizen		X
David Carter	Fire	X	
Jim Edwards	Police		X
Steve Fenner	Citizen	X	
David Hall	Fire	X	
Ron Hoffman	Retiree	X	
Ken Homan	Citizen	X	
Sheila Maerz	Human Resources	X	
Mary Mannix Decker	Finance	X	
Jim McCulloch	Police		X
Cindy Rushefsky (NV)	City Council Liaison	X	
Dan Wichmer (NV)	Law	X	
Linda Williams (NV)	Interim Secretary		X

NV = Non-voting

### 2. Pictet Asset Management

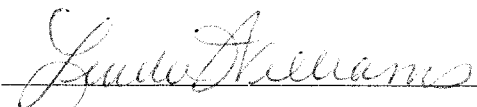
Honea mentioned that Mr. John Maratta from Pictet's Canadian office was present, as well as Mr. Charlie Price, from Pictet's London office was present. She stated that all other money managers, as well as Mr. Reina from Segal, were unable to attend due to the ice storm and the flight cancellations.

Mr. Maratta thanked the Board for letting them attend the meeting. A handout was provided to all Board members. The presentation was entitled "EAFE Equities – Philosophies & Process". Mr. Maratta reviewed their agenda with Board members. He stated that Pictet prepared a 45-50 minute

presentation based on the instructions received from Segal Advisors. He indicated that they would begin by making case for international investing vs. domestic – compare and contrast the two, then move to how Pictet approaches their international strategy, and then finish with how exactly the portfolio performed over the last twelve-month period. Mr. Maratta encouraged Board members to ask questions during his presentation.

Mr. Maratta turned the floor over to Mr. Price. Mr. Price stated that the first part of the presentation would address a case for international investing (see page 2 of handout). He stated that he was going to look at how international investing can expand investment opportunities and how one could potentially tap into sources of higher growth than just domestic company offerings. He will also talk about some of the challenges and risks of international investing, how it has developed over recent years. Historically, investing outside of the domestic market was regarded as something of great importance and now it is something that has a very rightful place in the domestic mix for a U.S. pension schemes. He added that he would then address on a the slightly more statistically-based, the benefits of international investing in terms of it being an asset class, which is not perfectly correlated with U.S. equities, and therefore provides an element of diversification and some of the additional growth that can potentially be tapped into can come with a reduced overall risk to the portfolio and finally, review stock examples that will help bring some of those points together.

Mr. Price began that in terms of expanding investment opportunities; he referred Board members to charts on page 4 of the handout entitled “evolution of Stock Market Capitalizations”. This chart reflects the size of the world’s investment potential in terms of 1970 (38 years ago) and how it looked at the end of this year. Mr. Price stated that it is very clear from a North American investor’s point of view, as well as from anybody else’s, that back in 1970 it was not particularly important, given at that point bonds were a larger part of the investments of pension schemes. U.S. equities practically made up 2/3 of the world’s investing universe. In terms of getting a flavor and color of what was available to invest in the world, it was pretty well anything you wanted to invest in was available to invest in, in the U.S. However, today the world has changed. In 2008, one sees less than ½ of the world’s investable universe is U.S. equities. Looking within that, there have been shifts in leadership in certain industries and looking at the U.S. market as a whole is not necessarily a proxy or provides investment opportunities for investing in certain types of companies in certain industries. This is expanded on page 5 of the handout entitled “Global Industry Leaders”. Mr. Price stated that this is not an exhaustive list of every industry and he purposefully set out in the table, examples of industries where the U.S. either has not had leadership or to some extent lost its leadership and just by demonstrating the number of companies in each of those sectors in the top 10 in terms of market count, size of company, are not U.S. companies. At the top of the list, and 9 of the 10 consumer durables companies of the world, are not U.S. based and so as an investor, to be able to tap into the great diversification potential, there is the choice of high-quality companies to invest in and one restricts themselves by looking at the U.S. only. There are household names: Panasonic, Sony, Sharp, LVMH (which is a French-based, but very much an international luxury good company). Mr. Price continued that on the list one can see also the basic materials, resource companies, banks, and more of the areas of the world’s markets where the U.S. continues to have dominance – technology hardware for example is one of the 4 of the 10 largest companies in the world that are among the U.S., even in pharmaceuticals there are some very big, very meaningful companies from outside the U.S. Hopefully one can get a feel of the diverse range of sectors which there are names that are recognizable. Some are not, but every single one of the companies listed is over \$15 billion in terms of market count, so they are very big companies with an international



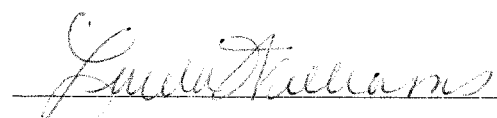
presence and very big domestic presence. For example, when looking at real estate, the 3 companies listed are quite dominant in the Asian, Chinese and Japanese real estate markets. So an opportunity to invest in those companies provides access to growth areas in real estate and markets which are tied to very different dynamics and cycles as compared to domestic real estate markets. Mr. Price stated that this gives a flavor for some of the opportunity.

Mr. Price stated that a couple of the pages in the report addressed the second point which is the potential for tapping into an improved growth profile. He stated that the chart on page 6 entitled "U.S. vs. World: The Recent Experience and the Longer Term" reflects 2008 calendar returns in U.S. dollars of a variety of MSCI indices. In local currency terms, the market fell approximately 50%, a very big shift in the yen and U.S.-based investors. These numbers are reflected in U.S. dollars. Looking at the snapshot of the last 12 months, one can see that everything is sharply down; however, one could be forgiven for thinking that the U.S. in that sense was the place that you wanted to be, but if you wind the clock back another 9 years and look at a 10-year picture, which takes you back to mid-way through the inflation of the tech bubble in 1998, one can see over that 10-year period, the annualized returns in U.S. equities were actually a negative and when looking further down, the MSCI World Index dominated 50% of which is still roughly the U.S. equity market. When looking at Europe, Japan and particularly emerging markets, the growth profile of investments in those areas has been very different compared to U.S. domestic equities. The worst performer of the major indices over the last 12 months has become known as the BRICS (Brazil, Russia, India, China). They carve out the biggest countries and biggest economic powers within the emerging markets. Those have grown so fast under dominant emerging markets that the index did not even exist 10 years ago which was why Mr. Price was unable to show that. Over the very long term, 10 years being the example, and now looking forward into the future, it is going to be the growth opportunities that one will find for equity investing, certainly enhancing growth that is available is going to come from investing overseas.

In individual calendar year terms, going back to 1985, the next 2 charts reflects that opportunity individually year-by-year. The red bars on the chart shows the individual calendar year returns of the MSCI U.S. Index. The gray bar shows the best performing other developed markets that were available to invest in over that period. Again, one can see that obviously some of these markets shown in the report were regarded as more risky, some of them very focus markets, but it really depends on some of the few companies and particularly some of the smaller European market. This provides one with the flavor of the type of additional returns which are available by active investment, potentially, in overseas equities. Those are stark contrasts between the two indices.

Mr. Price moved on to page 8 of the report entitled "U.S. vs. Developed & Emerging 1985-2008". This reflects open competitions that were to create emerging markets, although in some year the developed market countries are the ones that have actually produced the best returns. In many of those years it is actually emerging markets that produced the most phenomenal returns. Again, some risks came with those, more risks came with some of the higher returns than came with developed market equities, but the returns were there and provided potentially the addition, if invested in a small way, to enhance the returns of a portfolio.

Mr. Price asked for questions. None noted.



Mr. Price continued to page 9 entitled "Transformation of Relative Economic Size". He stated that when you begin thinking in terms of the future, this chart shows the fortunes in terms of Gross Domestic Products (GDP) that generate value in the economy. This is what Pictet refers to as the J7 (J(inko)7). This being a mixture of Asian and major European and South American emerging markets. Back in 2000, collectively the GDP of these countries was a fraction of that of the G7 developed markets. In 2010, the third set of bars on this chart, reflects the J7 GDP is roughly between 25%-30% of that of the G7, already it is of significant greater growth from 2000 to this point than what would have been seen in the G7. Taking forecasting further and projecting population growth and economic potential of those countries over the next 35, 40, 50 years, it is expected that by 2030 the J7 will have ½ of the economic power in terms of the value generation of the G7 and that by 2040, which is 32 years away, the J7 will have actually overtaken the G7 in terms of economic production. Mr. Price stated that there are a lot of assumptions going into these numbers. They are estimates, but it does give an impression of the consummate growth potential that there is in these markets and whether it is 2030 or 2070 when these markets overtake or catch up with the G7, there is a tremendous level of growth available for investors to tap into.

Rushefsky asked how the J7 breaks down in terms of the likely powerhouses within that group. Mr. Price stated the main two are going to be India and China within that group; certainly they are the biggest population blocks. China is already within that list of 7 countries that is already by far and away the largest, but growth potential remains there. India and China together constitute a population of 2.5 billion people and the assumptions that go into this kind of analysis assumes that, not a vast proportion, but a growing population, will be economically active and rather moving from farming shift to other forms of existence and move to cities, joining the work force, becoming more economically active on that front.

Mr. Maratta added that the key there is the bet is on the Chinese society changing or evolving from an agrarian-society to an urban-society and the emergence of a middle class, which will consume products like everybody in the West. They are going to want cars, better housing, better infrastructure, and better consumer products. Rushefsky stated that there are a lot of assumptions in there. Mr. Maratta said yes, but the overall trend remains the same. Rushefsky stated that this was an interesting group. Mr. Price agreed, the smaller groups would be Pakistan, Bangladesh, Brazil, Indonesia and Russia. Russia within that is not necessarily going to be so much a manufacturing center, it is not about cheap labor, and it is about materials. Russia is one of the most resource-rich countries in the world. Mr. Maratta added that Brazil was as well.

Mannix Decker asked about growth in some of the smaller European markets and whether they have potential or if they are topped out. Mr. Price responded that the growth will continue in Eastern European markets. The process that began with the collapse of communism being the principal driver of economics in the late 80's, early 90's was the catalyst. There is still a long way to go before Eastern Europe is economically on par with the more developed markets in Western Europe. He stated that there would be relatively few reasons as to why that should not continue until there is some sort of parity. He added for example some of the stocks in the portfolio, one of the reasons they have developed European companies is because a decent proportion of their growth profile that they are seeking to invest in is actually partly reliance on some component on some mix of business of emerging markets in Europe. Pictet has a couple of insurance companies that they are developing businesses in Eastern Europe, which as wealth grows, the desire to protect wealth and therefore in turn grows and this

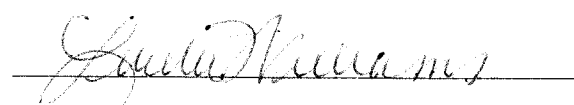


is a very un-penetrated market in terms of financial services and other sorts of measure and service activities. There are still many of them in the position of being essentially industrial economies and that tends not to last long before enough places create sock generating more free time and the wealth that allows other services and other industries to grow.

Mr. Price moved to page 10 of the report entitled "Challenges, Risks and How We Meet Them" and stated that this covered some of the more typical risks or challenges relating to the idea of international investing in terms of the risks and how international investors actually regard those risks and treat them. The first one is the share number of companies. That is a challenge in itself. Companies globally, with the market capitalization of over around \$500 million dollars, there are over 20,000 quoted companies and as markets move up and down, and that for an investor looking at the entire opportunity set, creates a big problem. Nobody, even with a team like Pictet, no one has dedicated to the effort, no one can credibly say they do in-depth, fundamental research on 20,000 companies. The methods Pictet employs are firstly to establish the style of investment they believe in. The type of attributes they look for in companies, whether it be a minimum level of liquidity in their stocks, whether it be a minimum quality of company in terms of assets that it has, its accounting standards, its quality of management, its profitability, etc. There is enough data on quoted companies available these days to put together competent screens that rise to the top of the list, the types of companies that you are likely to want to invest in. That does not mean to say that you are going to invest in the top 10 because clearly you have to do more research on these companies; however, you can identify factors and qualities and metrics around companies that allow you to screen and call the best looking ones to the surface. Having said that, there are companies that you would invest in potentially that you would miss in this process, but it certainly provides a tool which gathers from one end of the spectrum or to the top of the heap, the types of companies you are likely to want to invest in if you have the chance to do the fundamentals and choose on that basis.

The next step is them to employ, on the best looking companies, a process of fundamental research. Sometimes, very quickly, you can have a look at a company from a very fundamental basis and very quickly be able to discount it as a potential investment. Sometimes, you get more interested, sometimes you need to do more work. The key to successful international investing is to make sure from country-to-country and sector-to-sector within a process is that you are consistent as possible in the way you approach looking at those companies so ultimately you end up comparing like-with-like and the data you are looking at is consistent and properly comparable. Then you can start very powerfully to find the best investment ideas that confirm to the type of portfolio you want to put together.

The second point, historically and a very valid one, geophysical risk. A lot of the companies which appear at either the top or the bottom of the bars reflected on the previous page, many of those have a very checkered history in terms of politics, in terms of financial stability, in terms of currency stability. Historically, Mr. Price believes that was a very big question, but as markets globally have become far more international and the types of products and companies themselves becomes more international, the particular location in which a company is domiciled, the place in which its stock is quoted, has its principal listing, has become rather less of an issue in terms of being a risk component. Looking at companies which are domiciled in Russia for example, you have to look at those with a very big slice of the potential risks, the government, if you company starts to make too many profits, will turn around and take a slice or ban foreign investors from that company and effectively nationalize it. So in some areas where the risks are pretty visible, you do have to take that into account. But there are also ways that you



can invest in other companies in developed markets which access some of these more exciting markets in a more interesting and safer way and a way which helps diversify the risks in a variety of markets and not just one. In Pictet's view, geophysical risk does exist, it is pretty minimal. Where it does exist, it is pretty identifiable and needs to be taken into account, but as a general risk when investing indices are far less than the world's.

Mr. Price continued with the third point and that is counting differences. He stated 15-20 years ago it was a very valid accusation to throw at quite a few countries around the world, not just emerging markets, but also in the EAFE universe as well, to say their accounting practices were nowhere near as transparent as the U.S.'s, which for a long time has led the world in terms of accounting transparency. Again, as global standards in accounting begin to converge and as many companies have found additional liquidity, in other words have been able, for example, if a Brazilian company simply listed itself in Brazil and sells its shares of stock on exchanges, chances are it is not going to be tapping into the biggest sources of the funding. What many of those companies have found is that it is much more lucrative for them in terms of reaching more potential investors to issue ADRs (American Depositary Receipts). They are effectively a proxy for a share, but to be able to do that, whether they use global deposit units, ADRs, you have to basically submit to the full accounting practices of the country in which they are listed and all ADRs have to submit to the same quality of accounting material in the U.S. market place as they would if they were a U.S. company. That means accounting standards have rapidly standardized around the world. There are still some areas where they are a little hazier and more opaque, but again as international investors, you need to be aware of where those are, you need to make adjustments, you need to make assumptions that you are talking about companies in countries like Japan, being one example, where accounting practices are a lot better than what they were, but still not perfect and still not necessarily a global standard for Japanese smaller to mid-size companies. When obviously the bigger companies, Panasonic, Sharp, and Sony are listed in a number of places so their accounting has to be held up to the highest standards which tend to be U.S. standards. Those countries are completely transparent and the accounting is the same for U.S. companies.

Finally, currency, in investment terms is about the hardest thing to get right. Mr. Price stated that if anybody comes to you with a cast-iron view on which way a half dozen currencies are going to move against each other, then the chances are, they are going to be wrong, or if they are right, they are going to be talking to you from their jot or their private island, because they will not need to work anymore. It is without a doubt, the hardest thing to do. In Pictet's view, the best way is to base your assumptions on the futures market, which tell you pretty well the way that the consensus estimates of what currency is going to do, and then roll those into the assumptions that you make from the bottom-up when building company models. To try to call the direction of the markets is a very, very tricky thing to do. Very few people will have bet the bank on the idea that the U.S., the Japanese yen would strengthen by 35%-40% vs. the euro this year. Everybody agreed it was quite low when it sold, but it was trading at near lows, but the speed and scale at which it bounced back caught ever investor out. That was a very big move in a short period of time and it has had a big impact on the returns achieved from Japanese equities, but that is on the back of several years when frankly, it worked the other way and a gradual slide in the end worked against investors in Japan and diluted the returns. Pictet's view is that over the short-term if one can weather a little volatility, over the long term, these things essentially come out in the wash. Really something to accept as a risk, something to mitigate.



Mr. Price stated Pictet's EAFE strategy began last year with 6% underweight position in Japan driven by the desire to hold companies outside of Japan, not companies in Japan, and obviously that created an underweight position vs. the benchmark in the Japanese currency. So rather than accept that as being their view of what the currency was going to, if anything, get weaker, what Pictet decided to do to mitigate that risk (and that is the main thing you can do with currency – mitigate risk vs. your benchmark), was to hold a little cash, working balance of cash in a portfolio to hold that for the year in yen. So while they were 6% underweight in Japanese assets, Pictet actually held 2%-3% balance in the fund in cash so that yes, they remain underweight in those assets exposed to those companies, but they held 3% of their exposure to movement in the yen.

Hall asked if it was not worth being fully invested. It appeared to him that while you are not investing in Japan, you are underweighting in that by being in cash and are trading off some of the risk that the Board is asking Pictet to take. Mr. Price stated that their approach is what is described as a fully invested one, but at any given time with a portfolio of 70-80 stocks, you will be buying some, you will be selling some, you might not be able to necessarily match perfectly those and the last thing you want to do is to be overdrawn on your cash balances, so Pictet tends to regard a balance between 1%-3% of the portfolio, broadly speaking, the working balance of cash.

Hall said potentially, as a strategy, Pictet is unpaying and instead, technically what Pictet considers fully invested, because they have to have that cushion and so really the argument is not there for him that Pictet hedges against that by not being fully invested, if that is Pictet's normal process. Mr. Price said he was not talking about hedging by not investing in Japan, within the invested possible portfolio. Pictet had clearly built a position from the bottom-up based on the companies they wanted to hold which arrived at being underweight in Japan. That is the way he explained how the strategy worked, regardless of where they are, the size that they are, Pictet tends to choose across the world, the best companies. They did not set up controls where that takes the portfolio in terms of regional exposure and sector exposure. It is effectively a by-product of stocks they have chosen to hold. As a general rule, whether Pictet believes the market is going up or down, they would look to be fully invested, but where they do hold cash typically for an EAFE portfolio your cash balances would be held in U.S. dollars because if there is a redemption that would be the base currency in which you hold your cash; however, within the portfolio because of the mix of investments that are made relative to the benchmark weighting, obviously when you look at a benchmark you have the EAFE weighting in Japan which is about 20%; therefore, the EAFE weighting in Japanese yet is about 20%. That is exactly the same. If Pictet chose to be underweight in the asset class of Japanese equities by 6%, clearly that money is invested elsewhere and in this case, it is in Europe, but Pictet is also sitting with a U.S. cash balance, which could be used if they were to hold that cash in yen instead could be used, although it is still underweight, the 6% in Japanese equities they could actually reduce the underweight in Japanese yen by 3% by holding the normal benchmark of cash in yen so that somewhat mitigates that, although it does not change the underlying asset risk, it does offset, to a certain extent, the currency risk. They are not particularly comfortable attempting to predict currencies so whatever they can do to renew that component with the bets that they are taking, they will do in this case, it did work. It did not completely offset it because they were still underweight with the yen, but not as much as Japanese equity underweight looks.

Homan inquired as to whether the 6% was nominal. Mr. Price stated yes, but if you take the 14% exposure to the yen that we have by holding Japanese equities and add to it the 2% or 3% of cash yen that they were holding, that means the net position at the end was 17% exposed, but the positioning in



Japanese equities was 14% vs. a benchmark in both cases of 20%. Homan said that was way below what Pictet said was their minimum/maximum and asked if that was 20% plus or minus. Mr. Maratta responded that the plus or minus 20% in the region. Mr. Price said yes, versus the benchmark. So what is being said is that they will not let a region diverge from a benchmark weighting by more than 20%. For example, Europe is 60% beneath the benchmark. Homan inquired as to a few regions. Mr. Price stated that mainly a few regions are: Europe, Asia, and Asia Ex Japan. Japan is a big enough component that it effectively is treated as an undeveloped market as well. Homan asked if the underweighted 30% which is beyond their standards. Mr. Price responded no, the benchmark weighting in Japan is about 20%, they were underweight by about 6%, so they have 14% vs. 20%. Their range within which they allow themselves could ultimately be 0% or up to 40% of Japan, so 20% either side of that benchmark level. It is relative benchmark position to the regions, rather than an absolute. Homan reiterated that their range on Japan would be 0%-40%. Mr. Price said yes, it would be a big range. Mr. Maratta added that they have never seen it deviate more than 10% ever. Homan stated that he assumed the plus or minus 20% is the standard. Mr. Price said no, what they tend to do, that means that in theory in terms of risk vs. benchmark, if you were to have an element in the portfolio and Mr. Price used a benchmark of 10%, and another one that is 90%, then obviously 20%, say 10%, of the 10% would only be plus or minus 1% vs. that rating of the plus or minus of 10% for the bigger component and that vs. the benchmark which is equally a much bigger risk than you are taking in not achieving your performance of the 90% example vs. the 10% example. For the biggest components of the benchmark it does act as a control, so Europe is 65% of the benchmark so what it is saying, they would always have at least 40%-45%. It is a very broad range, but one with a portfolio that is driven by stock selection. They would tend to start asking themselves the type of risk that they are carrying if it is one that they really have conviction in.

Hall said that it seems pretty broad and it surprised him and made him wonder from looking at this, what is the real correlation to the benchmark or Pictet and it made him question the benchmark. Mr. Maratta asked Hall if he thought it was too wide. Hall said it seems like they have a lot, that the pension fund can be way off the benchmark in the fund's asset allocation. Mr. Maratta said potentially, it has never happened, but potentially, yes. Mr. Price said from their perspective, they have no incentive, their performance target is a benchmark relative, when constructing a portfolio, relative to a benchmark, and it is not in their interest to build the type of risk because these things can cut both ways. Obviously, if you are overweighted, that can work against you, and that is your chief concern, but are missing out on something else by being heavily underweighted, and you know they are very, very aware of that as well. It is in their best interest, to within the constraints of the structure that they built to meet all targets. They do not get paid more by massively exceeding or by being horrifically volatile over the short-term, but meeting a very long-term target. They have a time horizon, they have a risk budget, and they use it carefully. They also try to make sure that at any given time that the bulk of the risk in the portfolio is actually coming from stock selection level, because they are not actively making decisions on countries and on sectors. They try to make sure that a much smaller part of the risk budget is actually attributable to those factors.

Mr. Maratta asked members to turn to page 28 entitled "Portfolio Structure". This page reflects the weightings as of December 31<sup>st</sup>. There are regional weights and then country weights. As one can see, by and large, the biggest bets are the Japan and the Europe, but they are not huge bets vs. the index, so where Japan is currently at 15% vs. 25% for the benchmark weight, Europe brought 74% vs. 65%, which is roughly 10%. Then you have the individual countries within each region. This has not



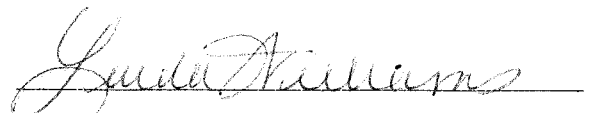


changed dramatically in the last 24 months, 36 months may be, and they have been consistently underweight in Japan because they are not seeing the attractive opportunities in valuation from the bottom-up perspective. They have been seeing a lot more from European perspective, as Mr. Price stated they are seeing a lot more growth from European companies that have exposure to Eastern Europe, particularly where there are better growth opportunities and Asia is roughly in line.

Mr. Price directed the Board to page 11 of the report entitled "Diversification – An Efficient Frontier" which addresses the concept of improved diversification.

Rushefsky asked to return to the weighting. She stated that perhaps she was missing something, but the fact that the Jinko countries are the ones that seem to have this great potential to overtake the G7, and yet she did not see that Pictet is doing any investing in those countries. Mr. Price said that is actually correct at the moment. The sum of the investments that they have in Hong Kong, and one of the reasons they are overweight in Hong Kong, if you look at some Asia Ex Japan, which is at the bottom of that table under Asia, Japan is split out separately, but if you look at Asia, the biggest component of the investable market in that region is Australia and is 6% of the 9% in the Asian region. Hong Kong is only 2% and they are quite well overweight in Hong Kong. They have 5% at the expense of being very underweight in Australia. That is principally because in Hong Kong there are only companies which are particularly industrial conglomerates and property companies which are exposed to the Chinese growth story. It is very difficult still to invest directly in India in terms of other emerging markets, the EAFE universe is essentially a developed market universe. They allow themselves to dip into emerging markets to gain access to that additional growth and in some emerging markets they have about 4-1/2% to 5% directly invested in emerging markets within the portfolio at the moment. Most of the exposure they have is through the subsidiaries of developed market companies and in fact one of the reasons he wanted to talk about the underperformance in Q3 and Q4 last year within the portfolio was that the developed market companies with that leg of growth added to their businesses by being exposed to emerging markets got hit very hard by the market as everybody sold down. They got scared about liquidity, about emerging market growth amidst the big seller in October. So the exposure is there but it is not physical in this type of analysis because a lot of it is coming through Hong Kong companies, Singapore companies and companies based in Europe which are exposed to Eastern Europe and Latin America.

Rushefsky said the countries that Pictet is investing heavily in the portfolio are those countries in which they have managers that come from those companies. Pictet has 4 people who are specialized in Japan, the other 4 were in Europe, and 1 was Italian, they are heavily invested in Italy, 1 from Switzerland. She was wondering how much of their investment strategy has to do with the folks they have on their teams as opposed to what the market is objectively showing. Mr. Price stated that he saw Rushefsky's point. He referred members to page 20 of the report entitled "EAFE Investment Professionals". He stated this shows the makeup of the Pictet team. He stated as a reminder, the EAFE equity team consists of 3 people whom pull the trigger on the portfolio, who agree and make decisions about what goes in the portfolio. The team is listed in the report. Principally, Fabio Paolini is the head of the team, the Italian. Swee-Kheng Lee covers Asia Ex Japan components of the universe; Richard Heelis is a specialist in Japan. Pictet deliberately pulled together 3 people who have a specialty individually and historically in each of the major components of the EAFE universe. In the Far East, Richard and Swee are supported by 2 other Japanese Specialists who are running Japan only portfolio on the European side, Fabio is supported by Gurdeep Bumbra and Daniele Scilingo, 2 European specialists in European portfolios. In



terms of putting the EAFE team together, Pictet is not reinventing the investment wheels; they are drawing on existing resources within Pictet and building a portfolio together. The fact that Fabio has an Italian name; he is basically from Luxemburg and was born and brought up there and has an Italian father. Rushefsky said that he graduated from an Italian university. Mr. Price confirmed that and stated that Fabio speaks 8 languages fluently. He further stated that what was actually found was many of the undervalued companies, particularly industrial and financial in Europe are Italian and it is not particularly because of his name that they found those there. Yes, in Japan they have a decent number of Japanese specialists; Pictet is very underweight in Japan. The stocks that are held there are quite defensive stocks and if they were to be taking a macro view, they probably would not promise on Japan that happens to be coming through on the bottom-up selection of the stocks as well, so Mr. Price said he could see how one could arrive at that conclusion.

Hall asked if they have any guidelines under sector weighting, plus or minus, for the benchmark. Mr. Price said yes, and asked members to turn to page 19 entitled "EAFE Portfolio Characteristics". Mr. Maratta said these are portfolio characteristics; essentially, this is how they try to build the portfolio. Beginning from the top box on the left, it is a bottom-up process which means at the end of the day, the process from a geographical and a sector standpoint is essentially a residual from a bottom-up process. They do not start with – let's overweight Europe and underweight Japan. They begin with what are the most attractive opportunities in the universe and then at the end they see what the portfolio looks like and that is when they come back with the risk control and when they say, wait a minutes, do we have a too much overweight in this sector or in this region or too much of an underweight and make adjustments thereof. It is a carpe style. That is growth at a reasonable price, the key is reasonable price. They have to see a growth -catalyst, but they do not want to over pay, valuation is extremely important to them. They have price targets and it is also a discipline. They have to know where the stock is going at its peak. In the portfolio there are approximately 80-90 names. The last box on the right, on the top, shows the portfolio construction guidelines. At a regional level, which is Europe, Japan, Asia Ex Japan, it is plus or minus 20. At a sector level, it is plus or minus 10 from the index, the stock level is plus 4, there is no negative, the reason for that is if there is a British petroleum, for example, in the index and if they are sufficiently negative on British petroleum, they do not think that they have to hold it simply because it is part of the index. They either like it or do not like it, so there is no negative side. The most they can overweight a stock is plus 4, what that means if they have a stock in the portfolio which is not in the index, the most they can hold in terms of percentage is 4%. If a stock is in the index at 1%, the most they can overweight is 5%. In summary, plus or minus 20 at regional, plus or minus 10 at a sector level, plus 4 at a stock level. Pictet's information ratio target is .5 and they try to outperform by 3% over a rolling three-year cycle, which basically they think is a business cycle, more or less.

Last box at the bottom on the right is equally important. The key word is opportunistic. Pictet will opportunistically invest into emerging markets and into smaller companies or small caps. Small caps are defined as being under \$3 billion, but over \$300,000 to \$400,000 million. They will not get into micro caps. Those two asset classes also have limits. Pictet will not exceed 10% in emerging markets. That is direct emerging market exposure. Countries that can be seen on page 28 entitled "Portfolio Structure", like Kazakhstan, Egypt, South Africa, those are direct exposure to emerging market countries. They will not exceed more than 10%; historically Pictet has been at 5%-6%, at the end of the year they were at 4-1/2%. That is direct exposure. That does not mean they will not play the emerging market growth story via developed country stocks, particularly in Europe. They will. The small cap level, the cap they give themselves is a maximum of 20% of the portfolio can be in smaller capitalized stocks, not the mega



caps, not the mid-caps, the smaller companies, where most times, these markets are less efficient and there are great opportunities to find undervalued companies. That in essence is a brief version of the characteristics of the portfolio – how many stocks are in the portfolio, how they do it and what the constraints are.

Homan asked where the small caps are. Mr. Maratta responded small caps are roughly at 18%-19%. Homan said the reasons for coming to Pictet in the first place is because the Board thought it was late to the party as far as emerging markets. Mr. Maratta said that is a plus, he was not sure if that was a plus or a minus. Homan asked if they would address the tracking error. Mr. Maratta referred members to page 23 entitled “Fund Performance”. There, he stated, one can see the tracking error on the bottom right side on page 23. It is about 5.56%. This is an annualized number for the last five years. One needs to bear in mind, their goal is between 4%-7%. For the first 4 of the 5 years, volatility has been practically non-existent, very calm. The last 12 months, they see markets stressed like Mr. Maratta has never seen in his lifetime. On an annualized 5-year number it is 5.56%. They try to stay within 4%, maximum 7%. Historically, they are closed to 4% or 4-1/2%. The 5.56% is because of the last 12 months. Mr. Maratta asked if there were any more questions related to page 19, which are the characteristics of the portfolio. No additional questions were noted.

Mr. Maratta asked if he should give the Board a brief overview of the firm within the context of what has happened over the last 12 months. He stated that it was stress and duress of capital markets. On page 14 entitled “Pictet & Cie Group Structure” reflects that Pictet continues to be a private Swiss bank. There are 7 partners. During the boom years, often times their organization has been made fund of because they have a very conservative business model. Pictet are asset managers. They run money for institutions and private clients which is the origin of the bank if you go back 200 years. That’s all they do. Pictet does not do investment management; they do not do mergers and acquisitions. They do not lend money and do not rely on overnight funding for its funding. They are independently funded from the 7 founders from the bank itself. They have a very, very conservative balance sheet. They have practically very little counter-party risk. The 7 partners are jointly responsible for all activities of the bank. Page 14 reflects the various subdivisions of the business lines. The rectangle on the left, Pictet asset management, they started managing institutional assets for clients such as the Pension Board in the mid-60’s in Europe. In the 1980’s they were registered with the SEC in the U.S. Their first North American client was in 1981. What this demonstrates is 200 years of longevity. Does this make them better money managers, no; as they have to prove that every single day the markets are open. What it does demonstrate is continuity, consistency, but most of all independence. Pictet is not owned by any outside shareholders. In the context of the last 12 months, while some of their competitors have had to lay off stock and close some strategies; Pictet has done none of that. At the beginning of the year, it was budgeted to hire firm-wide about 70 additional staff, but reduced that roughly in half. They are not letting any people go. They are still going through some of the more crucial hirings within the organization.

Hall asked what the turnover for upper level staff has been over the past couple of years. Mr. Maratta said last year the CIO moved on. Richard Heelis is still with the EAFE team and heads the Japan effort and received a promotion and is now the CIO of equities for Pictet. Mr. Maratta referred Hall to page 20 entitled “EAFE Investment Professionals”. Hall said yes, page 20, the team page. He stated that before Pictet had Richard and Fabio and now they have 4 members on its main management team so in essence they have made some changes. Mr. Maratta said they have strengthened the team. They have gotten



more clients, more assets and wanted to make sure Fabio and Richard, in particular, keep their eye on the ball, to use a euphemism. They want them in the office managing the money. Swee was hired in September 2007 and she covers Asia. Mr. Price came from Schroeder's in the 4<sup>th</sup> quarter and he is the fourth team member and the one that will probably have the most client interaction, interfacing, when meeting with clients for pitches or for client annual reviews. Pictet has actually strengthened the team in the last 12 months. Hall said one does not typically see people making changes to a team that is succeeding so as to not mess up the mix. Pictet has added a couple of people in the last 2 years and performance has not been so good, where as it had been extremely good, and again maybe coincidence, he does not know, but it seems Pictet is making changes. Mr. Maratta said they are adding, not making changes. Fabio is still doing what he used to do, which is cover Europe, which is 70% of the universe. Richard is still covering Japan which is 20%-24%, and Swee has a much smaller role covering Asia which is 7%-8%. Mr. Price, who joined in November, is helicoptering above this 80 where it is needed and does a lot of North America because EAFE (global Ex North America) – this produce is essentially a North American product. Hall said he did want to leave the impression that he was thinking that someone coming has been detrimental, but obviously, one would see that as one of two things, as a predecessor to somebody else getting ready to leave, bringing in new people or the second thing is there have been some issues that they need to work on so they bring in something new to beef that up and that is really the way he was thinking. Mr. Maratta stated that in all honesty, maybe 2 people on the team were being stretched too thinly. Performance was good, but it was not humanly possible to keep that up being at the office in London and coming to North America because one must keep in mind, that it basically takes 2 business days of travel for this trip.

Mr. Maratta stated that they have covered page 19, which was the characteristics, they have covered the team page, and the point he wanted to make is that Pictet is a stable, solid institution, not withstanding what is going on in the markets. There is no turnover; there is no loss of staff; no turnover headcount reduction. What causes some to laugh at their business model in the past is now bearing fruit in the last 12 months. Some of their competitors have had greater difficulty. Their private banking unit in Switzerland in the 4<sup>th</sup> quarter enjoyed its single, biggest, best quarter in terms of new inflows ever. That is due largely to some of the difficulties of its Swiss competitors, high net worth individuals, family offices, and very conservative preservation of capital. They move their money so the challenge for Pictet is to convert that which is now in money market into stickier assets, but that is their challenge. Mr. Maratta asked if the Board would like Mr. Price to review the fund's 4<sup>th</sup> quarter and performance.

Mr. Price continued and asked members to turn to page 21 entitled "Review of Market Performance (USD)". He stated that this shows the story of 2008 in terms of relative performance which is very much the story of Q4. They were lagging the benchmark a little bit going into Q4. The situation had deteriorated a lot, both in markets generally and in every line on both charts on page 21 and 22, it is pretty sharply down. Where it is down in Japan is because of a currency move. In local currency terms it was down 20%-25%, but in both regions where you see that differential in performance from region to region and particularly within sectors at the bottom of page 22 is where you see a difference of less than -5% to more than -30%. It does not take that many differences in the portfolio from the benchmark and several more of those being on the wrong side of the benchmark positions are quite punishing in terms of relative returns. Mr. Price stated that he was certain that was the case for its portfolio. He stated that when looking at the left hand side of the bottom on page 22, you are clustered. What you have got, generally in the market as defensive sectors, groups of companies whose fortunes are less tied to the economic cycle – telecom companies, health care companies, utilities, consumer staples companies. On



the right hand side of the page reflects the worst of the companies and both of the problems now being seen globally from the financial sector. It took a real caning in Q4 and was in very cyclical areas like materials, spending at consumer discretion – those sectors were hit hard. Generally speaking, pork bellies were underweight. Areas on the left and more overweight areas on the right which again, putting that in to context, they have updated the chart that will show from where they came and presented a year and a half ago, they now have a full 2007 and 2008 as well. You can see that over the long term incrementally, year after year, this approach added value in 2008, although those two lines on the chart have not quite completely come together. 2008 has put a good dent in that record. Mr. Price stated that they are incredibly disappointed with their performance as a team. They are disappointed obviously from their client's perspective as well and it clearly needs some explain and that is what the next couple of pages attempt to do.

Mr. Price stated that on page 24 entitled "Comments on Performance Attribution" rather than just give you a page of numbers, they were providing attributions for the different sort of decision that were taken and then they have interpreted and pulled out 4 of the main effects or themes in the market that hurt the portfolio, principally in Q4 and mostly in one month. Indeed the 22 trading days of October, all of the drops that were seen in those sectors and in those markets occurred in those days. November was slightly down, December was slightly up. The whole of the negative performance in Q4, both in relative terms and overall absolute terms, can be tied to the 22 trading days in October. They did not take what they saw in Q4 as the whole, but most of what they saw was a very big size effect. What happened in September really colored the whole of what happened in October as well. The collapse of Lehman Brothers in the U.S. sent shockwaves throughout the global financial system. Then saw Fanny Mae and Freddie Mac problems, saw AIG essentially go to the wolves. These things collectively sent ripples through markets. Whereas there had been some sources of stability potentially begin for credit markets, just vanished and very quickly those impacts in the financial sectors got interpreted by investors as potentially really kicking the global economy into quite a severe recession. If we were already in the doldrums and there was no prospect for financial institutions to be in a state to help boost and would require massive bailouts by governments which is going to withdraw money that could have been directed elsewhere from the system, then that was going to be a big problem. Those effects caused investors to panic in October. One of the main things that happened is size effect. Anything in the market that looked slightly less liquid, smaller companies, mid-size companies, companies in some markets which are less liquid, potentially emerging markets or more peripheral developed markets were sold down in favor of large liquid companies and large liquid markets. That occurred in October and that hurt performance and as was pointed out, they are quite overweight in small cap and that in effect hurt them.

Mr. Price continued that tied into that is the second point, which is what they call the lack of defensive exposure. The underweight positions that they have in the pharmaceutical sector, in drug companies, in consumer staples sector, in utility sector were not big overweight individually, but collectively it added up to a 5%-6% underweight position in what they term defensive sectors with very large cap, very liquid companies making them up in some cases. In each of those cases, they have good fundamental reasons why they did not like the big companies in those sectors. Big health care companies and big pharmaceuticals companies for the most part, they think, face very challenging times. A lot of the drugs that have been the backbone of their profitability over the last few years are coming off the patents over the next 2-4 years and they are going to be subject very quickly to very intense generic competition so their margins are going to become eroded very quickly. Add to that the fact that they have nothing like



the quality of media drug pipeline coming through and the inventiveness in how the pharmacy companies has not been there over the last few years so there is nothing coming on the street to take up the running of those drugs going off patent. For them, the big U.S. companies as well, not just in the EAFE universe, but some of the bigger European pharmaceutical companies as well, for that reason they think they are over-valued and Pictet chose not to hold them and that was the wrong place to be in Q4 for the very fact that they are big, boring and fairly well-capitalized and financially stable. There was a rush of assets out of less liquid companies and into those big ones so defensive sectors benefited at the expense of more cyclical ones.

The third point on that is the underweight position in the Japanese yen. They are very specific here about the Japanese yen because they were more underweight with the domestic market, but actually the only difference between the domestic market performance from a U.S. investor's perspective and the other markets was that movement in the yen. They wanted to wait the yen to a certain extent which mitigated by holding cash in yen, but with 18% versus the euro over the course, that hurts. Finally, the points which were made about emerging market exposure, direct emerging market exposure, because they were aware of the general risks there were and the lack of liquidity directly in emerging markets. They were fairly low exposed to emerging markets at 4% to 4-1/2% of the portfolio, but where they did have exposure is in the whole series of companies that are listed there, which for the most part are high-quality domestic, development market companies with a good franchise, good management, strong balance sheets, which had some elements of the growth profile that they had chosen to invest in reliance on exposure to emerging markets. In Japan's tobacco case it was some exposure, 10% of its earnings exposed to the Russian market. Other institutions, along with most the financial, similarly had some components of variance of the emerging market and were hurt. Individual companies did not hurt, particularly, but collectively, that was damaging to the performance and the perfect storm that was created by such a rapid decline in the market in such a panic, meant the portfolio was on the wrong side in October of each of those trends.

Hall asked what changes have been made since then and were they talking about eh small cap and the size effect of that. Hall asked if Pictet had made any changes in that or what has been done if anything. Mr. Price said clearly you do not do nothing when that happens to you in a month. The speed and severity of it was as surprise. The recourse, and actually the way in which it happened, was essentially a blind, blanket sell-off, whether the companies were good companies or bad companies, because of an exposure or they were in a certain sector or in a certain country. That does two things, one it potentially, in the short-term, severely punishes a portfolio to the wrong side of it, but it also means that some very good companies get needlessly sold down and if nothing has changed from an investment perspective, they suddenly become a lot cheaper. Typically, their reaction was to go back through the portfolio and look at every individual stock that they were holding and say is there a good fundamental reason why this is part of the sell-off or is the investment case still fundamentally right and is this an opportunity to add, certainly not sell, but certainly to not choose staying with the company and add if they see this weakness persisting. Actually, they went through the portfolio sector by sector. That is what they did and they really focused on two elements. Obviously, the world is a more risky place so in some cases where they thought there was potential for further down tick or where they thought that the volatility was so high that they essentially could not trust the standard risk models that they have. They did rein in a few positions particularly at the sector level that took the biggest beating, but in doing that they really re-circulated the cash back into stocks which they thought had been sold off in a non-sensical way.



The two things that they focused on were, obviously, the outlook for the world's economy has deteriorated since before the start of Q4 and they wanted to take a view as to whether the prospects for individual companies were more geared to that additional deterioration than the average benchmark or less geared on two levels. Firstly, was there operational gearing, were the size of their profits going to be more adversely affected by the downturn, were they very cyclically exposed or were they more defensive within those sectors, particularly when looking at that in industrials and a couple of companies that he can mention where actually there were holdings specifically there to provide an offer against the downturn. The second thing they looked at, and one of the biggest concerns of Pictet during their sell-off was effectively, debt refinancing risks. Any company that had borrowing on its balance sheets that was geared, had bank loans or credit lines which had to roll over, got sold off, again, it was a blanket sell-off, potentially a very big risk for a weak company that has to refinance very soon for its contract to run out, its position has run out, it has to refinance or renegotiate with banks. Banks do not have the appetite to do that, cut off the line; the company goes and is so bad for the investor. What they did was check to see if they were holding companies, where if they were geared in financial terms, the refinancing risk was several years out or if the cash flow from the company was very sufficiently strong that even if they did have to refinance early and face higher interest charges as a result, that they would be fine with that and remain solid and remain in business and remain pretty well intact. That was their reaction.

Turnover in the portfolio during the Q4 did rise a little as they took some risk out of some areas and they readjusted the portfolio. But when looking at pages 26 and 27 entitled "evaluation of Relative Regional Weights", one can see at a regional level on page 26, this is the chart going dark blue to pink, shows the quartering positions over the last 4 quarters, so at the end of Q1 of 2008 relative to the benchmark and went through the end of the year. The year ended up with Europe being more overweight than when they started. Japan was pretty consistent, so these positions have not changed. The changes in the portfolio did not really affect that. On sector levels on page 27, they did. They saw a very, very marked underperformance from the material sector during Q3 and Q4. They took an opportunity to narrow the underweight position that they had built up and they have been very successful historically in materials. The consumer discretionary overweight position that they had there, they have reduced that to a certain extent, consumers staples underweight, that is defensive sector, have slightly reduced the underweight position and at the same time, slightly reduced the underweight position they had in medi-caps because companies with any kind of exposure outside of developed markets even got hit, even some of the big cat companies in Q3 and Q4, Nestle, the Swiss company is a good example of that. A very global, quality brand, which 6 months to 9 months ago, looked pretty expensive to Pictet and was trading in on 18 times earnings and that is pretty rich. Pictet bought it in October at 11 times earnings, have seen it fall by 40%. That was an opportunity to pick up stock which they would not have bought on valuation grounds, but did like the company and the franchise more cheaply and at the same time reduced the underweight position in the defensive sector. Otherwise, the sector position have remained pretty stable as well.

Mr. Price elaborated on an example of the type of company that was mentioned earlier on, a defensive company in a sector that looks very cyclical is a small company that Pictet holds in Finland called Kone, which is a Swedish elevator company. They manufacture, install and then maintain and service, elevators. The company has a very interesting business model when going into a recession. It essentially gives away the lifts. The initial installation does not virtually have a margin. Where it makes most of its margin as profit is on the aftermarket in service maintenance contracts that run the full life of





the installed elevators which could be 15, 20 or 30 years. Ironically, when things turn down, not as many buildings are being put up, there are far fewer below margin making installations and within the business nix, the aftercare becomes a higher proportion of the profits for them so when things turn down for everybody else, profits for accompany like that can actually go up. Clearly, the fact that they are not installing new lifts, if that persists for too long, that can start to destroy the long-term franchise of the business, but in the short-term, it is a very attractive characteristic for a company. Again, throughout what appears to be cyclical exposure in the portfolio in industrials in particular. They have holdings in companies that a decent proportion of their earnings rely far more on prospects which are less tied to the ups and downs of the economies and more tied to long-term spending plans for governments exposed to infrastructure, exposed to very long-term contracts where there is good visibility and good cash flow.

Homan inquired about the weighting and if they were keeping it at 25%. Mr. Price stated that they went into the beginning of 2008 thinking the worst was probably over for financials and that the decision to go overweight was, in hindsight, not the right one. Homan inquired if they are overweight in Europe, then they are overweight in Asia as well. M r. price stated they are overweight in financials in Europe; however, they are looking at this optically at a sector level. Well, you would say that was a disastrous place to be in 2008. Within the mix of financials, financials overall during 2008 did not really have either a positive or a negative impact on relative performance. They got underweight performance in the sector and they chose not to hold any U.K. banks and those have been the real disaster areas in terms of retail banking. They chose to hold no investment banks particularly in the U.S. You are very aware of fortunes of some of the world's largest financial institutions in investment banking. The same has been the case in the EAFE universe. That has been a bad place to be and they avoided it. Again, in the cyclical sector they have tried to find companies whose businesses are less geared to either the ups and downs of the markets or the wholesale credit markets which have been the problem areas for most banks. They have looked for retail banks in Europe and Asia that are more exposed and have far less gearing in their balance sheets. In other words, they are not lending far more than what is being deposited. They are actually balancing their books more and not requiring to go into the wholesale credit market to borrow more to lend out and so they are not gearing their balance sheets and are safer in that respect. They have also looked for, they have been overweight in normal life insurance companies. Life insurance companies obviously have very long-term liabilities and they have huge pots of assets which are there in case they need to pay out, paying out pensions in the future, but a good deal of those assets are invested in equities. Casualty insurance and other types of insurance are very different. You do not have to be as exposed to equity markets and those are safer places to be. Also private banking companies and asset management companies with a much safer exposure to fee income in stickier types of clients rather than retail that can go up and down.

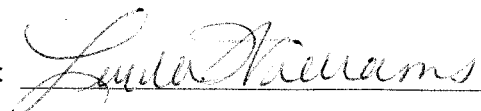
Mr. Maratta stated that if the Board wanted a complete list of financials, they are to turn to page 29 entitled "Pictet International Equity Fund LLC Portfolio". Homan stated he worried about the European banks. Mr. Maratta added that they do not have any European banks. Mr. Price agreed that there are no European banks. The main banking exposure is in Italy and Greece and to a certain extent in France. Homan said the prospect of nationalization of those banks is a concern and more likely to happen in Europe. Mr. Price said it will happen in part of Europe. It has already happened in the U.K., it is going to happen more in the U.K. Pictet does not have any U.K. banks in the portfolio, and as he stated earlier, there are two risks to banks in Europe. One is that they are incredibly overstretched in lending. Lending far more than is being deposited and they are very dependent on the now non-existent wholesale credit markets. With that dried up, they have big problems and they are going to have to seek





help and have been seeking help from governments. Governments are going to have to step in. The second reason is if there has been a lot of toxic assets, subprime, various obligations relating to the mortgage markets on their balance sheets, which they are having to write down, which is undermining their capital base. For those two reasons, governments are going to have to step in and help banks out, potentially nationalize them. In both cases, Pictet has gone throughout its portfolio holdings and made sure that neither of those are significant risks. Soc Gen was potentially a contender, but it has already recapitalized before they bought it. It has investment banking operations; it has some Jarvis collateralized debt obligations. Essentially, it owns some toxic assets which are a result of subprime properties in the U.K. and U.S., but it is underwritten by the government who are not intending in France to nationalize banks.

Homan said looking at the attribution analysis, what concerns him more than anything is a couple of things, first of all, most of this under performance is coming not from the allocation, whether it be by country or sector allocation, but rather the selection process and Pictet is bottom-up people so that concerns him that Pictet is selecting stocks. The biggest thing that was mentioned here is the utilities, what happened there, it has really underperformed big time. Mr. Price agreed and stated that to Homan's first point, virtually every course of the way they have produced a more modest out performance rather than a big under performance, the biggest contribution positively has been selection and the allocation effect had been minimized 20%-30% of the out performance, but the big positive is stock selection for them as stock selectors and this is a very disappointing outcome. The reasons for it are various. One can look at each of the stocks that have contributed to it and point to essentially one of those four reasons within that stock, some times more than one of those four reasons, as to why the stock has underperformed. Mr. Price believes it is a very extreme market performance. It is extreme in the context of how they risk budget under performance for the portfolio. It is something which has left the portfolio's stocks – they have not capitulated – they have not sold or went down and bought safe stock. They firmly believe that a lot of stock will bounce and in a very, very harsh market environment. Mr. Price continued that to Homan's second point on utilities, the utility stocks are interesting because they tend to be regulated businesses. Firstly, they are regarded as the safe haven in this, so being a little bit underrated you can see on previous charts, utilities is one of the best performance sectors. Being a little bit underweight is going to get relative to the benchmark, is going to hurt. They were underweight, but also the way the analysis divides between allocation and selection in utilities is not so clear cut as it is in some of the sectors because utilities are much more correlated in the way they move. It is rather more difficult to choose between an allocation affect vs. the benchmark in terms of weighting. Homan stated that materials, utilities and stocks were down nearly 4 times as much as 32.4. Mr. Price agreed and stated that in the context of this portfolio, if you look back to page 29, the utility stock that they were holding there, there are relatively few stocks. They have actually added since then, Tokyo Gas and Electric Power Development Corporation so they are actually only talking about 4 companies which is a pretty concentrated portfolio in the context of the sector. Again, some of those are relatively small and in terms of emerging market exposure so it got hurt by that. Homan inquired about the 80-90 names. Mr. price stated that the 80-90 names is an attempt to be focused within a very broad universe, but to retain a level of diversification and so yes, it is pretty concentrated. Homan said he was curious, as Pictet reevaluates its risks in all of this, does that cause them to reassess its small cap weighting. Homan believes that Mr. Price said they were still around 18% and that is where they were a year and a half ago. Mr. Price indicated that on page 31 entitled "Universe", it shows that as of the end of the year, they were a shade under 20% in small cap. That results in two things, one is that they have recycled some of the cash out of there into bigger stocks, sometimes into cast-off stocks, but as the market has fallen they



have seen quite a few mid-cap stocks drop into the sub-\$3 billion group, so that group includes some of the portfolio and has essentially gotten bigger in term of numbers of companies. Homan stated for the Board to believe you get your benchmark +3%, we all have to be believers that the small cap is going to provide that performance. Mr. Price said yes, the principal, in terms of market cap, the principal of a portfolio is in small cap. The reappraisal of risk that they have done was particularly focused on the potentially more volatile, potentially less-liquid small cap stocks in the portfolio. In almost every case they have chosen to continue to hold those stocks. In their view, the thesis has not changed. They are the soles-down, particularly the ones with the component of emerging market exposure, in a very uniform way, the good and bad went down as well and they have continued to believe that the portfolio stocks that they are holding in the small cap area are a) of high quality and b) have potentially very significant upside, even more so now that they have been sold down, the valuation is even cheaper.

Homan inquired as to whether their allocations, as far as their sectors and country regional exposures, are they about the same for small cap as it is for the portfolio overall or do they have more in certain regions or certain industries or sectors. Mr. Price stated that he believes there is probably a little more of an overweight position in Europe. The bulk of the small cap holding in the portfolio is in the European. Asia Ex Japan, the biggest mega cap underweight will tend to be in Japan, principally in U.K., Europe and Japan. Asia, in general, is a little bit more of a mid-cap market. There are very few of what you regard as mega-cap companies in Asia or Japan, so it is very small compared to the index, but yes, principally, in Europe is where the small cap exposure is. Again, they have really focused the risk reassessments on those companies and the highest conviction they have in the portfolio in terms of individuals tocks is frequently and the upside potential that is there is in some of the small cap holdings.

Hall asked Mr. Price how he sees that affecting this over the next 12 months. He stated his concern is over the short run asked if that really is a good bet, that this seems almost like an offensive strategy to make up quickly from that and he is not sure that the economy in general, or environment in general, is set to do that. It may be a very sluggish rebound so would that put Pictet as greater risk over the short run of 12, 24 or even 36 months. Mr. Price said that is a good question and he believes in economic terms, they probably still have a number of courses of recession depending on where you look – at U.S. to emerge first, Asia next, Europe and U.K. after that, and depending on your view of how long that recession is going to be, how long the pain is going to be, you are likely to see a balance more of small companies going bust and having trouble than you are going to see very large companies having trouble or going bust. Effectively the investment risk is greater in small cap which is why they have gone through the portfolio and made absolutely sure that the companies that they are holding they believe are very soundly financed have very strong business models and in some cases, are actually benefitting versus the rest of the current environment. The one scenario in which they see another sharp sell-off, that fully ignores fundamentals and really focuses on one or two points, particularly liquidity, and where they see even more of a rush to quality, big-cap, huge companies, it is difficult to see. The type of shock that they saw with the various things that came together in September and October, he believes the risk is that it would not happen again, rather than it will and if they do see more of a decline in the markets, their view would be that it is more of a steady decline as the short to medium term outlook deteriorates further and that they see that much more as a general sell-off across the market of lower-quality companies where this cyclical impact is going to be rather than high. Again, in this situation their portfolio stocks, they think, would survive at least as well as the market, if not better. To a certain extent Hall is correct in that you could look at it as a fairly offensive position. Mr. Price stated that he hoped that he had explained some of the rotation they have seen in some of the stocks in the portfolio



are less than average exposed to the further deterioration of the economic environment and should within themselves, even within the small cap areas, are seen as safer companies to hold. In a better case scenario, equity markets tend to start discounting recovery at the very earliest signs of recovery rather than actually coming through, so maybe 2, maybe 3 quarters before they start to see economic statistics saying we are out of recession, we will start to see equity markets discounting and in the same way that was suffered pretty savagely when the market suddenly took a view that things were going to get worse. They think from their processes perspective and particularly from their client's perspective, if they were to reverse that, having taken in their view 95% of the pain, if they were to have capitulated and effectively reduced the potential upside by reducing their position by 5% overweight, they would have been doing a disservice and it would be contrary to their process, because their process is about finding growing companies and finding them at a reasonable price. He stated that the most compelling investment cases they find continue to be in the small cap area. Hall stated that their feeling continues to be status quo where things are not great before recovery, and then you expect you will probably hold your own or just slightly under perform, but as it does recover, you expect to significantly out-perform the benchmark. Mr. Price said that is obviously what they are hoping for. That is what they believe they have positioned the portfolio for. Mr. Maratta stated they outperformed in December and year-to-date they are roughly 40 basis points ahead of the index, this is preliminary with a month and a few weeks data, but it goes to what Mr. Price was saying. As soon as there is a little bit of continuity and stability in the markets, they believe they should be able to out-perform.

Homan stated that he assumes EAFE is like the U.S. markets, the small cap just leaves you out of the reversal period. Mr. Maratta stated that it is similar. Homan said he wonders if what we are afraid of in this market is that all of this government spending is going to drive some new growth and make us well and then we have to address all that liquidity and start wringing it out as quickly as we can so we are going to have, at best, a cap on our growth, at worst, sink into another recession not far after that. Homan asked if Mr. Price believes the liquidity situation overseas is the same way, have the central banks over-extended some, are they financing and going through this double-dip type process and what recovery may be ahead. Mr. Price said there is the potential for that scenario to play out. The thing that they believe is the key to starting to release some problems. Most of what is going on today is extended from toxic assets, banks not being able to trust what is on another bank's balance sheets and the wholesale credit market seizing up. Obviously, there are other impacts as well, but that is the principal and he believes for them to see, companies can't follow up, if they can, it is at extortionist rates and until companies can borrow for stock, financing new development and invest in new growth, it is going to be very difficult to see EAFE start to pull itself out of the problems that it is in and grow its way out. For the central banks and what happens over the next 2-4 months in terms of decisions of about how to really grasp and diffuse the financial market situation is key, whether it is a European-style nationalization of some of the financial institutions and effectively vacuum them with a sovereign name to restore that credibility in them or whether it is what is needed in the U.S. and other places, as well sort of an aggregated bank that absorbs and buys the toxic assets and effectively sells these banks. They bought the nasty assets off of them and restored some confidence that way and then start to reduce the credit spreads, allows companies to borrow again, starts to finance growth and that is, to them, really the key. If that can be sought out and can be grasped for the next 2-3 months in a credible way, that could be the market catalyst way before one really begins to see it fed through into the main stream.

Mr. Maratta asked if there was anything else that needed to be addressed that had not already been addressed.



Mr. Price stated that he would like to conclude by saying Pictet is as disappointed as the Board at the performance that they achieved for the Board. They are absolutely making sure, they have a process that has been proven over a very long period of time to work; however, a set of circumstances came together in Q4 last year which savaged the positions of that process. What they have gone through, diligently, is a process that they believe in and the Board bought into and they have satisfied themselves that these stocks have the potential to recover and the positions that they have got are still justified and if anything, the upside is now higher having been picked for the reasons in many cases, which are not related to fundamentals of companies and for a process which essentially picks the best stocks it can find, when the best stocks it can find get cheaper, the thesis does not really change or deteriorate. That for them is a sign that they should increase their commitment rather than capitulate. That is hopefully the message they were able to deliver today. Mr. Price added that one is not going to see it come back in one quarter, but certainly as markets turn and you see some recovery, they would expect and hopefully restore the position that they were at before Q4 and reinstate the record that the Board bought into.

Hall asked over a five-year period what Pictet would say is a reasonable expectation for international growth. Mr. Maratta asked if he meant relative to the benchmark or in absolute terms. Hall stated to the benchmark. He added that the Board makes its plans based on expected returns and assumptions over the long term and that this is important to the Board and wanted to know how Pictet thinks it is going to perform over the next five years. Mr. Price said if you mean that in terms of overall earnings growth expectations, which is ultimately the returns you get from companies, they think there is probably some downgrading expectations still to come from this year and probably next, not that that will necessarily dent the markets, it will simply bring out into the open what is already being discounted in the markets. If they do not see a turnaround on a five-year view with a couple of potentially negative years, you could be looking at earnings growth over the five-year period of sort of low-single digits annualized for company profits. In market terms, it is rather more difficult because as they argue for many companies, the market level of their shares is detached from fundamentals. The way and how much that is discounted is very difficult, they just know it is a lot. Pictet thinks the market reaction averaged over the next five years will be significantly above that, maybe in the low-double digits. Mr. Prices does not think they are going to see a boom market the way it was seen up to 2007, but he thinks a more-steady rebuilding of confidence. There will be sharp spikes up and there will be little setbacks, but sort of on average, that sort of order. Hall again stated that they obviously cannot predict what is going to happen, but there has been a lot of revaluation of this and what is a realistic return over the next five years of the U.S. market on equities and bond markets and those all tend to be downgraded. Mr. Maratta said that the earlier charts showed that the last 10 years the U.S. market was -2% or thereabouts, and if you believe the next 5-10 years, maybe the U.S. market will do a little significantly better than the -2%.

Mr. Maratta thanked the Board for allowing them the opportunity to present to the Board. Mr. Price also thanked the Board. Honea thanked the gentlemen for coming so far in the inclement weather.

Mr. Chaikan and Mr. Reina thanked everyone and ended the telephone conference call.

#### 8. Adjournment

Honea asked for a motion to adjourn the special meeting of January 27, 2009. Motion by Maerz, 2<sup>nd</sup> by Hall. Meeting adjourned at 5:45 p.m. on January 27, 2009.

